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Review of the efficiency of the administrative and financial functioning of the United Nations

Activities of the Independent Audit Advisory Committee for the period from 1 August 2011 to 31 July 2012

Report of the Independent Audit Advisory Committee

Summary

The present report covers the period from 1 August 2011 to 31 July 2012. During the period, the Independent Audit Advisory Committee held four sessions, which were presided over by David M. Walker (United States of America) and John F. S. Muwanga (Uganda). Mr. Muwanga was elected Chair for the calendar year 2012, and Adrian Strachan (Jamaica) succeeded him as Vice-Chair for the 2012 calendar year. All of the members of the Committee, including, where applicable, Mr. Walker, who did not seek re-election, and J. Christopher Mihm (United States of America), who succeeded him as the representative from the Group of Western European and Other States, attended each of the four sessions during the reporting period.

Section II of the report contains an overview of the activities of the Committee, the status of its recommendations, and its plans for 2013. Section III sets out the detailed comments of the Committee.

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I. Introduction

1. The General Assembly, by resolution 60/248, established the Independent Audit Advisory Committee as a subsidiary body to serve in an expert advisory capacity and to assist it in fulfilling its oversight responsibilities. In accordance with its terms of reference (see General Assembly resolution 61/275, annex), the Committee is authorized to hold up to four sessions per year. The Committee has held 19 sessions since its inception in January 2008.

2. In accordance with its terms of reference, the Committee submits an annual report to the General Assembly, containing a summary of its activities and related advice. The present, fifth annual report covers the period from 1 August 2011 to 31 July 2012.

3. The observations, comments and recommendations of the Committee on the effectiveness, efficiency and impact of the oversight activities of the Office of Internal Oversight Services (OIOS) are contained in the body of the present report under section III.C.

4. The Committee is also required to advise the General Assembly on, inter alia: the compliance of management with audit and other oversight recommendations; the overall effectiveness of the risk management procedures and deficiencies in the internal control systems; the operational implications of the financial statements and the reports of the Board of Auditors; and the appropriateness of the accounting practices and disclosure practices in the Organization. The Committee also advises the Assembly on the steps necessary to facilitate cooperation among the oversight bodies.

5. The current report addresses the issues identified during the reporting period as they pertain to the above responsibilities of the Committee.

II. Activities of the Independent Audit Advisory Committee

A. Overview of the sessions of the Committee

6. During the reporting period, the Committee held four sessions: from 12 to 14 December 2011 (sixteenth session); from 13 to 15 February 2012 (seventeenth session); from 14 to 16 May 2012 (eighteenth session); and from 16 to 18 July 2012 (nineteenth session). All of the sessions were held at United Nations Headquarters.

7. The Committee functions under its adopted rules of procedure, as contained in the annex to its first annual report (A/63/328). To date, all members of the Committee have a 100 per cent attendance rate at its sessions. All the decisions of the Committee have been unanimous; however, its rules of procedure make provision for members to record their dissent with decisions taken by the majority.

8. At its sixteenth session, in December 2011, the members elected John F. S. Muwanga (Uganda) as Chair and Adrian Strachan (Jamaica) as Vice-Chair, for 2012. Additional information about the Committee can be found on its website in all the official languages of the United Nations (http://www.un.org/ga/iaac/).

9. Since its establishment, the Committee has submitted 12 reports to the General Assembly, 2 of which have been submitted during the current reporting period. These include one report to the General Assembly, through the Advisory Committee

on Administrative and Budgetary Questions, on the budget of OIOS under the support account for peacekeeping operations for the period from 1 July 2012 to 30 June 2013 (A/66/737), and its annual report for the period 1 August 2010 to 31 July 2011 (A/66/299).

B. Status of the recommendations of the Committee

10. As at 30 June 2012, the Committee had made a total of 103 recommendations in its reports, including 10 reiterated recommendations. The remaining 93 recommendations include the following: 14 recommendations that the General Assembly has deferred to subsequent sessions; 57 recommendations that have been implemented; and 22 recommendations that are in the process of being implemented.

11. Some of the deferred recommendations are to be considered by the General Assembly in its sixty-seventh session, while others are to be kept under review by the Assembly. The first set of recommendations that are to be kept under review pertains to the independence of OIOS and covers the following issues: definition of the operational independence of OIOS; definition of impairment to OIOS independence; annual assurance on OIOS independence; development of an internal oversight document containing definitions of the purpose, authority and responsibility of oversight activities; protocol for the distribution of OIOS reports; and selection of staff for appointment and promotion. The second set of recommendations pertains to accountability, and includes issues such as the definition of accountability in the United Nations.

12. Although it meets only four times per year for two to three days at each session, the Committee has made important achievements to date, particularly in relation to the operations of OIOS. The Committee follows up on the implementation of its recommendations as a standard agenda item at each session and looks forward to seeing the full effect of the actions taken by OIOS and by management. Some of the significant recommendations made by the Committee during the reporting period relate to:

(a) The need for management to consider enterprise risk management as one of the highest priorities of the Organization, especially given the size and complexity of the Organization, and to continue to enlist the support of senior leadership to ensure successful implementation;

(b) The recommendation that OIOS take into account the effects of persistently high vacancy rates in the Investigations Division when assessing the relative utility of endorsing one of the options for the pilot project on investigations in peacekeeping operations;

(c) The reaffirmation that OIOS should supplement client satisfaction surveys with specific outcome-based measurements that demonstrate the value that OIOS adds to the United Nations;

(d) The recommendation that OIOS should extend external assessments to include the Investigations and the Inspection and Evaluation Divisions;

(e) Within the context of strengthening the investigation function in the United Nations, the need for a more coordinated and integrated approach to investigation activities;

(f) The recommendation that OIOS should undertake a thorough capacity gap analysis, together with the reiterated recommendation that it carry out risk-based workplanning as the basis for budget preparation;

(g) The fact that relying on voluntary contributions for one quarter of financing exposes the Organization in general and the respective programmes in particular, to risks which the Committee believes the Administration should articulate and mitigate.

C. Overview of the plans of the Committee for 2013

13. The Committee undertook its responsibilities, as set out in its terms of reference, in accordance with the scheduling of the sessions of the Advisory Committee on Administrative and Budgetary Questions and the General Assembly. The Committee will continue to schedule its sessions and activities to ensure coordinated interaction with intergovernmental bodies and timely availability of its reports. In a preliminary review of its workplan, the Committee identified several key areas that will be the main focus for each of its four sessions for fiscal year 2013 (see table).

Workplan of the Committee for 2013

Session	*Key focus area*	*Intergovernmental consideration of the report of the Committee*
Twenty-first	Review of the 2013 workplan of OIOS in light of the workplans of other oversight bodies	Advisory Committee on Administrative and Budgetary Questions, first quarter 2013
	Proposed budget of OIOS under the support account for peacekeeping operations for the period from 1 July 2013 to 30 June 2014	
	Coordination and cooperation among oversight bodies	
Twenty-second	Review of the budget proposal and workplan for the regular budget of OIOS for 2014-2015	General Assembly, second part of the resumed sixty-seventh session
	Status of implementation of oversight bodies' recommendations	
	Risk management and internal controls	
	Coordination and cooperation among oversight bodies	
Twenty-third	Operational implications of issues and trends in the financial statements and reports of the Board of Auditors	Advisory Committee on Administrative and Budgetary Questions, fourth quarter 2014
	Coordination and cooperation among oversight bodies	
	Preparation of the annual report of the Committee	General Assembly, main part of the sixty-eighth session

Session	*Key focus area*	*Intergovernmental consideration of the report of the Committee*
Twenty-fourth	Workplans of OIOS for 2014	Advisory Committee on Administrative and Budgetary Questions, first quarter 2014
	Proposed budget for OIOS under the support account for peacekeeping operations for the period from 1 July 2014 to 30 June 2015	
	Review of the enterprise risk management and internal control framework in the Organization	
	Election of the Chair and Vice-Chair for 2014	

14. In the discussion on planning for 2013, the Committee identified the following relevant events that will have an impact on its work activities:

(a) The decision by the General Assembly, in section II, paragraph 5 (a) of its resolution 66/236, to keep under review the recommendations concerning OIOS made by the Committee in its annual report (A/64/288, annex);

(b) The various reform/transformational initiatives that the Organization has embarked on, including the accountability system;

(c) The ongoing external assessment of the various divisions of OIOS;

(d) The end of the terms of office for three of the five members of the Committee, whose three-year terms expire in December 2013.

III. Detailed comments of the Committee

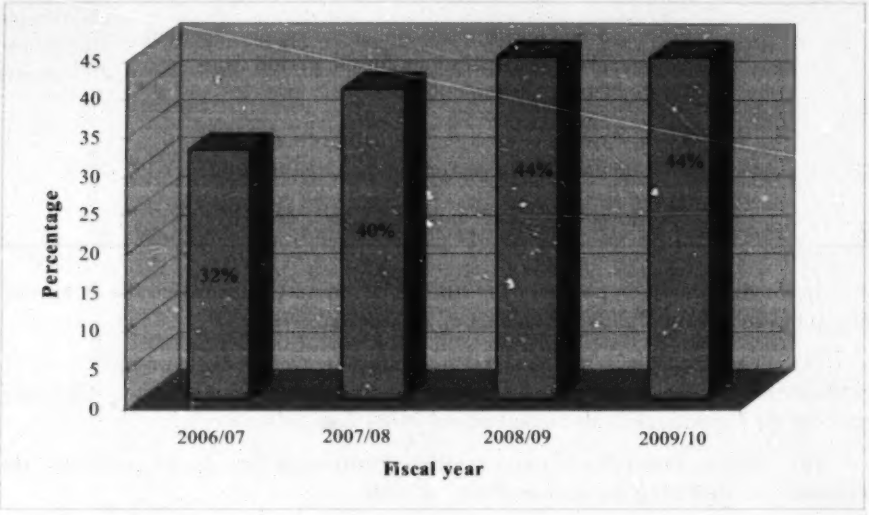
A. Status of the recommendations of United Nations oversight bodies

15. Under paragraph 2 (b) of its terms of reference, the Committee is mandated to advise the General Assembly on measures to ensure the compliance of management with audit and other oversight recommendations. During the reporting period, the Committee reviewed the status of implementation by management of the recommendations of United Nations oversight bodies, as a standard practice.

Board of Auditors

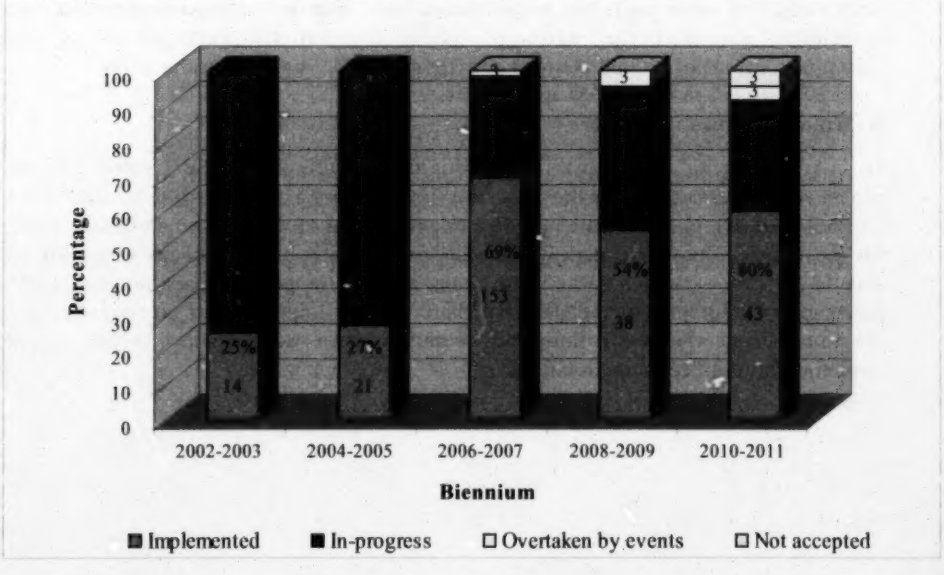
16. According to the report of the Board of Auditors on the United Nations peacekeeping operations for the 12-month period from 1 July 2010 to 30 June 2011 (A/66/5 (Vol. II), chap. II), the rate of implementation of the recommendations made for the financial period ended 30 June 2010 in respect of peacekeeping operations was 44 per cent — which is the same as the rate for the period ended 30 June 2009. (see figure I). In spite of the fact that there was no improvement compared to the previous period, the Board noted no overall concerns with respect to the rate of implementation of recommendations.

Figure I
Rate of implementation of recommendations of the Board of Auditors on peacekeeping operations



17. The Committee also received a briefing from management on trends in the status of implementation of recommendations of the Board on activities under the regular budget. The Committee noted a general trend of improvement in the implementation rates since the biennium 2002-2003, with the best performance being in the biennium 2006-2007, at 70 per cent, compared to less than 20 per cent in 2002-2003 (see figure II).

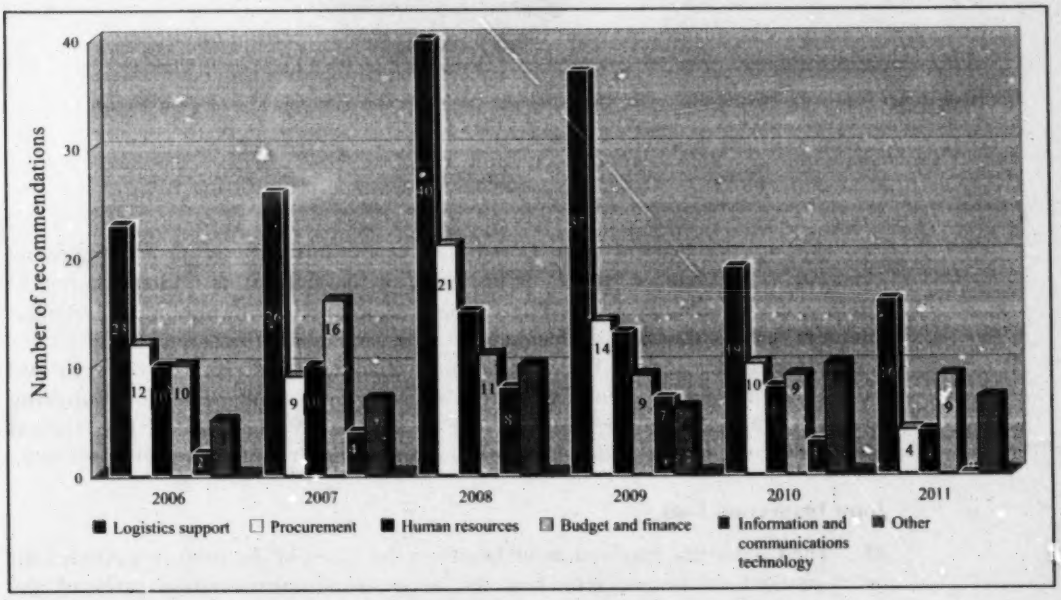
Figure II
Trends in the status of implementation of the recommendations of the Board of Auditors on activities under the regular budget



18. **While acknowledging that management has yet to reach or surpass the 2006-2007 implementation rate for recommendations of the Board of Auditors, the Committee believes that reasonable effort has been made in this regard. The Committee would like to acknowledge the work of Management Committee in ensuring that the main recommendations of the Board are implemented expeditiously.**

19. The Committee was also provided with a trend analysis of the thrust areas addressed by the various recommendations contained in the reports of the Board of Auditors on peacekeeping operations. As figure III shows, over the last six years, logistics support has continued to have the highest number of recommendations, and procurement has shown the biggest decline, from 10 recommendations last year to 4 this year. **Overall, there has been a reduction in the number of recommendations issued. The Committee intends to discuss these trends with the oversight bodies to determine their implications for the status of the oversight functions vis-à-vis the effectiveness of the internal control framework of the Organization.**

Figure III
Thrust areas addressed in recommendations of the Board of Auditors

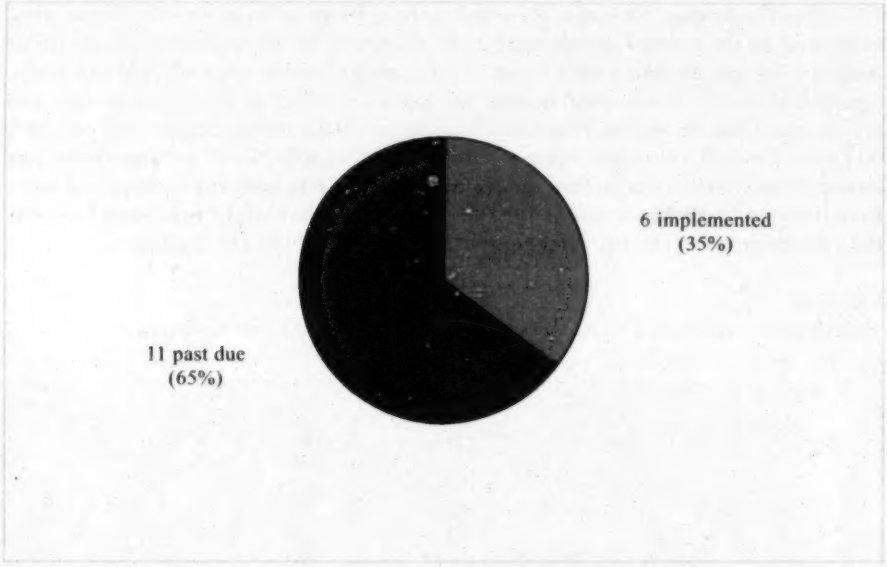


Office of Internal Oversight Services

20. Effective 1 January 2012, OIOS, as reported in its annual activity report (A/66/286 (Part 1)) changed the way it prepared its reports and ranked its recommendations. The Committee was informed that the Management Committee had accordingly adjusted the way it monitored outstanding critical OIOS recommendations. The Committee received an update from OIOS on the implementation of critical recommendations that were either due for implementation or past due in the first quarter of 2012. The update showed that 6 recommendations (35 per cent) had been implemented, and 11 (65 per cent) were past due (see figure IV).

Fourteen critical recommendations and 174 important recommendations were issued in the first quarter.

Figure IV
Status of implementation of recommendations of the Office of Internal Oversight Services



21. During the briefing, the Committee was informed that the Management Committee had changed its modus operandi for monitoring the implementation of OIOS recommendations. The Management Committee will now pay particular attention to past due critical recommendations and new critical recommendations issued during the quarter. **The Committee welcomes these changes in focus and calls upon the Management Committee to continue to strengthen the monitoring process, especially in the light of the fact that 65 per cent of the critical recommendations targeted to be implemented in the first quarter were past due.**

Joint Inspection Unit

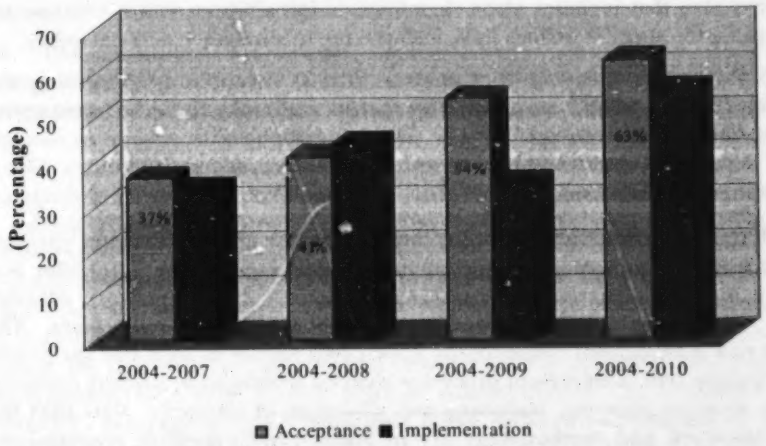
22. The Committee received an update from the Chair of the Joint Inspection Unit on a number of issues, including the acceptance/implementation rates of the recommendations made by the Unit. The Committee was informed that overall the acceptance and implementation rates continued to be a challenge. This situation, however, is expected to improve when the anticipated web-based tracking system is in place. According to the Joint Inspection Unit, the system is expected to be rolled out to some agencies in August 2012 and fully operational by the end of the year.

23. The Committee also noted paragraph 9 of General Assembly resolution 66/259, in which, inter alia, the Secretary-General was invited, in cooperation with the Joint Inspection Unit, to identify the appropriate substantive agenda items of the General Assembly and other pertinent organs and bodies of the United Nations under which the thematic reports of the Unit should be listed. **The implementation**

of this resolution should lead to improvement in the acceptance rate and hence in the implementation rate.

24. The Committee noted that, according to the Joint Inspection Unit, the aggregate acceptance rate of its recommendations by the United Nations Secretariat continued to improve, from 54.4 per cent for the 2004-2009 period to 63.1 per cent for 2004-2010 (see A/66/34, table 2). The aggregate implementation rate also improved from 35.3 per cent for the 2004-2009 period, to 56.2 per cent for 2004-2010 (see figure V).

Figure V
Status of acceptance/implementation of recommendations of the Joint Inspection Unit by the United Nations Secretariat



25. **While noting the improvement in the acceptance/implementation rates and acknowledging the challenges faced by management in addressing the recommendations of the Joint Inspection Unit, the Committee recommends that the Secretariat enhance its consideration of the recommendations and find a way to bring to the attention of the Management Committee those recommendations that remain unaccepted and/or unimplemented for extended periods of time.**

B. Risk management and internal control framework

26. Paragraphs 2 (f) and (g) of the terms of reference of the Committee (see General Assembly resolution 61/275, annex) mandate the Committee to advise the Assembly on the quality and overall effectiveness of risk management procedures and on deficiencies in the internal control framework of the United Nations.

Accountability system

27. In annex III to its report of 27 August 2010 (A/65/329), the Committee included comments on the implementation of General Assembly resolution 64/259 an accountability system in the United Nations Secretariat. By its resolution 65/250, the General Assembly decided to defer consideration of those recommendations to

the main part of its sixty-sixth session. In its report of 12 August 2011 (A/66/699), the Committee, while noting the achievements that management had attained thus far, decided to reiterate all the recommendations contained in annex III of its report (A/65/329), namely: that the Secretary-General should integrate enterprise risk management in the programme planning process; that the Secretary-General be responsible for designing, monitoring and evaluating the system of accountability; that the General Assembly consider expanding the definition of accountability to include adding value and managing risks; that the definition of accountability include a reference to contractors and consultants; and that the Secretariat develop a clearly defined and well-documented implementation plan.

28. Subsequently, the General Assembly, in paragraph 6 of its resolution 66/257, requested the Secretary-General to develop, as a priority, a clearly defined and well-documented plan that includes clear objectives, responsibilities and a timeline for accomplishing the specific actions he is undertaking to strengthen accountability.

29. **The Committee believes that such a plan is essential for ensuring the continued relevance of the accountability system and looks forward to receiving further updates in this respect.**

Enterprise risk management

30. With respect to its recommendation that the Secretary-General should integrate enterprise risk management in the programme planning process, the Committee was pleased to note that the enterprise risk management policy framework contains reference to aligning risks to mandates, objectives and strategic plans. The enterprise risk management methodology goes a step further to state that the results of the enterprise risk management processes shall be leveraged to support decision-making in strategic planning, budgeting and allocation of resources. **Now that the policy framework and methodology are in place, the Committee recommends that the Management Committee, which also functions as the enterprise risk management committee, take up, as a priority, the integration of risk management processes in the Organization.**

31. In paragraph 50 of its report of 26 February 2010 (A/64/683), the Advisory Committee on Administrative and Budgetary Questions recommended that risk management be embedded in the various departments rather than in a separate structure. The General Assembly endorsed the recommendation in paragraph 31 of its resolution 64/259. The Committee focused its attention on meeting with the various so-called "risk management champions" of the Organization to get a sense of the status of implementation of the General Assembly resolution. Accordingly, the Committee met with the Executive Director of the Capital Master Plan, the Under-Secretary-General for Field Support, and representatives of the Under-Secretary-General for Humanitarian Affairs and Emergency Relief Coordinator. The Committee noted that each of the departments/offices were at different stages of implementation of risk management systems. In all the entities, there was a central theme that risk management was an indispensable management tool.

32. The Committee observed, for instance, that the capital master plan had embedded risk management principles right from the beginning of the project and had continued to consider risk management as a dynamic management tool where old/existing risks are identified, eliminated, lowered or elevated. The Committee was also informed that as new portions of the project are more fully designed and

developed, additional risks may be identified, added to the risk register and ranked. The Committee was further informed that a key aspect of the risk management process in the capital master plan was that individual risks on the matrix are "owned" by specific individuals, who are responsible for monitoring the risks and for proposing adjustments to the likelihood of such risks and risk mitigation strategies.

33. The Department of Field Support, on the other hand, acknowledged that in light of the size and complexity of its operation, risk was an ever-present factor in everything that the Department of Field Support and the Department of Peacekeeping Operations do, and a systematic risk management process was critical. The Committee was informed that there was no proactive risk mitigation in the field and that the management of risk continued to be intuitive, inconsistent and ineffective. Audit reports had repeatedly highlighted the lack of robust risk management practices at the field level.

34. The Committee was further informed that a professional enterprise risk management officer had consequently been appointed to design a risk management programme and accompanying policy document for the Departments of Peacekeeping Operations and Field Support. According to the Department of Field Support, this would culminate in the issuance of formal implementing guidelines that will standardize the practical approach, thus mitigating the risk that missions will adopt a variety of risk management approaches with varying degrees of efficacy. The Departments of Peacekeeping Operations and Field Support noted that risk management would be directly linked to departmental, field operation and project objectives, and make extensive use of scenario planning, while emphasizing the use of quantitative analysis techniques as opposed to simple, subjective scoring. In this regard, the Departments indicated that they were in the process of incorporating risk management into their Senior Mission Administration and Resource Training (SMART) programme. **The Committee looks forward to receiving in its future sessions, further updates from the Department of Field Support in this respect.**

35. With respect to the Office for the Coordination of Humanitarian Affairs, the Committee was informed that, given the volatile nature of its operations, risk identification and mitigation were very important. Accordingly, the Office had started to put in place some elements of the enterprise risk management system, and was in the process of establishing a comprehensive risk register. **The Committee looks forward to receiving a copy of the register and will follow up on the progress in this regard at its future sessions.**

36. The Committee observed that the main offices/departments advancing the enterprise risk management system have not yet systematically embedded risk in their operations. **The Committee noted that OIOS, and the Department of Management (with the exception of some offices, such as the Office of the Capital Master Plan) have yet to establish systematic risk management systems. Since these two departments are the vanguard of enterprise risk management in the Organization, the Committee believes that they should lead by example and be part of the "risk champions".**

37. The Committee was subsequently informed that OIOS had identified its key risks and was in the process of addressing them. **While acknowledging the effort to identify the top risks, the Committee agrees with the Board of Auditors that a key aspect to effective governance is the identification, mitigation and**

management of risk. The Committee looks forward to receiving an update with respect to systematic risk management processes.

38. **In the light of the above, and consistent with benchmark 2 in the report of the Joint Inspection Unit on enterprise risk management in the United Nations system (A/65/788), the Committee recommends that the Management Committee take it upon itself to ensure that the various departments of the Secretariat incorporate risk management in their respective operations, with the understanding that these offices will need guidance and training from a central enterprise risk management capacity.**

39. In this respect, the Committee would like to note that one of the four recommendations set out in paragraph 24 of its first annual report (A/63/328) and reiterated in paragraph 27 of its report of 12 August 2011 (A/66/299) related to the establishment of a Chief Risk Officer. **The Committee wishes to underscore the importance of such a post to the successful implementation of enterprise risk management Secretariat-wide and the need for this official to be vested with the appropriate authority and, consistent with benchmark 6 in the report of the Joint Inspection Unit (A/65/788), adequately resourced to achieve his/her related responsibilities.**

40. **Furthermore, in order to get a better picture of the status of implementation of enterprise risk management in the Secretariat, the Committee recommends that the Secretary-General undertake a comprehensive review and submit a report to the General Assembly on the status of the enterprise risk management system in the Secretariat based on the 10 benchmarks identified in the above-referenced report of the Joint Inspection Unit. This could form the baseline from which future progress could be measured.**

C. Effectiveness, efficiency and impact of the audit activities and other functions of the Office of Internal Oversight Services

41. The terms of reference of the Independent Audit Advisory Committee provide for it to advise the General Assembly on aspects of internal oversight (General Assembly resolution 61/275, annex, paras. 2 (c)-(e)). In undertaking its mandate, the Committee has maintained its standard practice of meeting with the Under-Secretary-General for Internal Oversight Services and other senior OIOS officials during its sessions. The discussions have focused on OIOS workplan and budget execution, significant findings reported by OIOS, operational constraints (if any), post incumbency and the status of implementation by management of OIOS recommendations, including the top 10 to 20 recommendations that had not been implemented by management, strengthening investigations and funding arrangements.

Workplan and budget of the Office of Internal Oversight Services for 2012-2013

42. The responsibilities of the Committee with respect to OIOS as set out in the terms of reference include the examination of the workplans of OIOS, taking into account the workplans of the other oversight bodies, and advising the General Assembly thereon.

43. The Committee reported its observations and recommendations with regard to OIOS workplans in its report on the budget of OIOS under the support account for

peacekeeping operations for the period from 1 July 2012 to 30 June 2013 (A/66/737) and in its report on the proposed programme budget for OIOS for the biennium 2012-2013 (A/66/85).

44. The Committee also reiterated its previous recommendation regarding residual risk and was encouraged to note that OIOS had included in its workplan for the regular budget, the audit of key controls that management had put in place to mitigate the inherent risks. In its previous report, the Committee reiterated this recommendation insofar as it related to the systematic assessment of the residual risk as the basis for determination of the overall level of resources allocated to OIOS (A/66/299, para. 31). **In its subsequent discussion with OIOS, the Committee was informed that OIOS was not yet where it wanted to be as far as risk-based workplanning was concerned. Without prejudice to the outcome of the external assessment of the Investigations and Inspection and Evaluation Divisions, the Committee recommends that OIOS accelerate its effort to attain a fully risk-based workplan.**

45. The Committee continued to monitor the implementation of the workplans of the divisions in OIOS and the timelines of reports. In paragraph 33 of its report of 25 August 2009 (A/64/288), the Committee indicated that it considered it important that reports be finalized in a timely manner, as the value of oversight work diminished when reports took too long to complete. The Committee, through feedback from OIOS clients, and/or presentation from OIOS, noted that some assignments continue to take a long time to be finalized.

46. In the recently concluded external quality assessment of the Internal Audit Division, the issue of the excessive duration of audits, including the time it takes to issue the reports and the significant number of engagements carried forward from one year to the next, was raised in the findings. Furthermore, the examination of the aging of Investigations Division assignments as at 31 May 2012, showed that 40 per cent of all cases for investigation were more than 12 months old, and 12.7 per cent were more than two years old. **While acknowledging the effort OIOS is putting into developing and executing its workplans, the Committee would like to reiterate its recommendation that the duration of assignments and the number of assignments carried over to following periods should be reduced, if OIOS is to improve on the effectiveness of its oversight work.**

47. With respect to the budget for OIOS, the Committee made several recommendations in its reports on the proposed programme budget for OIOS for the biennium 2012-2013 (A/66/85) and the budget of OIOS under the support account for peacekeeping operations for the period from 1 July 2012 to 30 June 2013 (A/66/737). The Committee noted that all the resources that the Committee supported for OIOS in the regular budget for the biennium 2012-2013 were approved. As for the OIOS budget under the support account for the period 1 July 2012 to 30 June 2013, the Committee noted that all the resource requests that the Committee supported were approved by the General Assembly, with exception of the request for an additional post in the Investigations Division. As far as budget execution is concerned, the Committee received routine updates from OIOS and voiced its concern at the low rate of execution of the budgets. The Committee was informed that the low rate of budget execution was due mainly to the high vacancy rates that prevailed, especially in the Investigations Division and in the field missions. This

led the Committee to emphasize the importance of expediting the filling of vacancies, which, as noted in the present report, has greatly improved.

Vacant posts in the Office of Internal Oversight Services

48. In its previous reports to the General Assembly, the Committee has reported on the high number of vacancies in OIOS. Similarly, in its reports on the United Nations peacekeeping operations and accounts (A/64/5 (Vol. II) and A/65/5 (Vol. II)), the Board of Auditors commented on the vacancy rate of resident auditors and investigators in peacekeeping missions and investigation hubs.

49. OIOS informed the Committee that as at 30 June 2012, the overall vacancy rate in OIOS was 15.3 per cent, which is an improvement from the 21.5 per cent rate reported by the Committee in its previous annual report (A/66/299). Even in the Investigations Division, which used to have the highest vacancy rates, there has been a significant reduction, from 25.5 per cent (see A/66/299, para. 35) to 16.2 per cent. In all the Divisions, the vacancies related to posts funded from the support account, continue to be higher than the average for OIOS as a whole. For example, in the Investigations Division, as at 30 June 2012, 21.3 per cent of posts funded from the support account were vacant, compared to 14.6 per cent for the regular budget. Similarly, the vacancy rate for posts in the Internal Audit Division was 17.5 per cent for the support account compared to 11.4 per cent for the regular budget. **The Committee would like to commend OIOS for improving its vacancy situation, an issue which had been a concern of the Committee since 2008, and notes that with improved vacancy rates comes the high expectation that workplans will be implemented on a timely basis.**

External quality assessment of the Internal Audit Division of the Office of Internal Oversight Services

50. According to Institute of Internal Auditors standard 1312 on external assessment, internal audit activities are to undergo an external assessment at least once every five years, starting 1 January 2002. In its previous report, the Committee reported that OIOS had engaged the Institute of Internal Auditors to undertake an external quality assessment. The objectives of the review were to assess the conformity of Internal Audit Division practices and processes with its audit manual and with the standards of the Institute of Internal Auditors, to assess the efficiency and effectiveness of the Division in meeting the needs of stakeholders and to make recommendations to improve and streamline the internal audit process (A/66/299, para. 41).

51. The external assessment resulted in nine significant recommendations, which included: the need for a consolidated audit universe and risk assessment and the need to prepare annual plans based on risk assessment rather than available resources or existing funding arrangement, to expand the information technology audit universe to assure adequate risk coverage, to eliminate excessive duration of audits, to develop an internal audit "charter", to develop a continuing professional development strategy, to revisit the contents of risk assessment engagement reports and to monitor progress by focusing on critical and important recommendations.

52. **The Committee continues to observe progress in implementation of the recommendations of the external assessment, some of which mirror the Committee's previous recommendations. Furthermore, in its previous report,**

the Committee had recommended that such assessments also be extended to the Investigations and Inspection and Evaluation Divisions (A/66/299, para. 42). The Committee has been informed that the external assessments of the two Divisions are under way and looks forward to receiving the reports thereon.

Strengthening investigations

53. In its report of 27 August 2010, the Committee recalled that, in paragraph 18 of its resolution 62/247 on strengthening investigations, the General Assembly had requested the Secretary-General to prepare for its consideration and approval, in close cooperation with OIOS, a report providing detailed information on terms of reference with regard to the proposed comprehensive review of investigations in the United Nations (A/65/329, para. 24).

54. In its report of 12 August 2011, the Committee reported that a task force, chaired by the Deputy Secretary-General, had been established to address the request of the Assembly (A/66/299, para. 44). The objective of the task force was to review all types of investigations being conducted in the Secretariat; make suggestions on the need to improve systems; examine steps that would be required to implement change; and prepare the terms of reference that had been requested by the General Assembly in resolution 62/247. The Committee had also been informed that OIOS was conducting an assessment of the workload that would result if OIOS were to assume the responsibility for all investigations in the United Nations and the resources this would entail before taking a final position in this respect. The Committee has not yet received the requested update on the key steps being taken to address the request of the General Assembly. **In the light of the ongoing external review of the Investigations Division of OIOS, as well as the upcoming report of the Joint Inspection Unit on the investigations function in the United Nations system, the Committee recommends that the Secretary-General finalize the long-awaited proposed terms of reference on the comprehensive review of investigations in the United Nations.**

Pilot project

55. With respect to the pilot project on investigations in peacekeeping operations that was scheduled to end on 30 June 2012, the Committee, in its previous report, had expressed concern that the high vacancy rate in the Investigations Division, especially in the hubs, could affect the results of the pilot project, and requested OIOS to take into account such effects when assessing the relative utility of recommending a future structure and location of peacekeeping-related investigation activities (A/66/299, para. 37). Subsequent to the finalization of the above-mentioned report, OIOS issued its comprehensive report on the pilot project, as requested by the General Assembly in its resolution 63/287 (A/66/755). In the comprehensive report it was noted that it was premature to recommend a revised structure in the context of the 2012/13 budget of the support account (which was initiated in September 2011) prior to the scheduled completion of the pilot project in 30 June 2012. OIOS further indicated that it was committed to concluding its data collection for submission of a recommended structure in the context of the 2013/14 budget of the support account to be initiated in September 2012.

56. Since the report of OIOS on the pilot project was issued after the Committee had finalized its report on the budget of OIOS under the support account, the findings

of that report were not reflected in the Committee's report (A/66/737). **Upon review of the report, the Committee agreed with the comments and conclusions of the Advisory Committee on Administrative and Budgetary Questions contained in its report (A/66/779/Add.1), and looks forward to reviewing the final results of the pilot in the context of the 2013/14 Support Account budget submission for OIOS.**

Risk-based workplanning

57. With respect to risk-based workplanning, during the reporting period, the Committee was informed that, given the nature of the investigations function, the workplan of the Investigations Division could not be prepared using a risk-based approach. OIOS contended that since investigations were intrinsically reactive, workplans could not be risk-based. The Committee acknowledged that, to some extent, the work of the Investigations Division was reactive; however, there remained an element of its work that would benefit from proactive risk-based planning. In its report, the Board of Auditors carefully laid down the case for proactive risk assessment, especially as it related to assessing fraud risk and conducting investigations to identify and deter fraudulent activity including those involving suppliers (see A/67/5 (Vol. I)).

58. In its first quarterly report for 2012, OIOS reported that in 2011 only 7 per cent of all cases investigated were procurement-related, while 39 per cent were finance-related and 29 per cent human resources-related. During the first quarter of 2012, only 18 per cent of the cases were procurement-related, while 39 per cent were finance-related and 40 per cent human resources-related. **The apparently low level of procurement-related investigations could be a result either of improved controls instituted since the establishment of the Procurement Task Force, or failure to report and/or detect fraud, especially among suppliers. The absence of a proactive fraud risk detection system in the Investigations Division makes it difficult to be sure that the low rate of procurement investigations is a result of improved controls. In this regard, the Committee recommends that OIOS include in the context of its future budget submissions for the Investigations Division, a risk-based workplan for the Committee to review.**

Inspection and evaluation function

59. In paragraph 62 of its report (A/66/16), the Committee for Programme and Coordination recommended, and the General Assembly in its resolution 66/8 endorsed the recommendation, that the Secretary-General ensure that OIOS evaluation reports also focus on programme impact and results achieved, by improving the methodology for conducting assessments and, in particular, ensuring regular follow-up on the progress made and more comprehensive conclusions. During the reporting period, the Committee has had interaction with OIOS on the need for the Inspection and Evaluation Division to provide feedback on how useful the evaluation reports have been, and whether management has the capacity to use such reports. The Committee was informed that OIOS in general, and the Inspection and Evaluation Division in particular, had begun to incorporate the use of programme logic models (called programme impact pathways) as a tool in the planning stages of all programme evaluations to help address the concerns expressed thus far. **The Committee considers this to be an important and positive development.**

60. The Committee was also informed that the external assessment of the Inspection and Evaluation Division would address issues such as: examining the extent to which OIOS inspections and evaluations have informed and influenced decision-making in the Secretariat; identifying opportunities for the Division to be more strategic and useful to the Organization; and addressing discrete programmatic and operational issues such as the adequacy of methodology, quality assurance and work processes. **The Committee looks forward to receiving the results of the assessment and to further discussions on the efficacy of the programme impact pathway tool vis-à-vis the logical frameworks used in the results-based budgeting process of the Organization.**

Capacity gap analysis

61. In its report on the budget of OIOS under the support account, the IAAC expressed concern that the Inspection and Evaluation Division had reported that there were several evaluation assignments that it was constrained from undertaking by a lack of resources (see A/66/737, para. 22). The Committee noted that only 3 posts out of 26 approved for the Inspection and Evaluation Division pertained to peacekeeping operations. At the same time, the Committee was not aware of any case that OIOS had made for additional resources for evaluation. In fact, the Committee had been informed that all the high-risk areas in peacekeeping operations had been covered. This led the Committee to recommend that OIOS ensure that in future workplan submissions, a risk-based capacity gap analysis be undertaken so as to properly justify future resource requirements. **The Committee wishes to reiterate this recommendation, especially in the context of the Inspection and Evaluation Division.**

D. Financial reporting

62. Under paragraphs 2 (h) and (i) of its terms of reference, the Committee has the responsibility to advise the General Assembly on the operational implications of the issues and trends apparent in the financial statements of the Organization and the reports of the Board of Auditors, and on the appropriateness of accounting policies and disclosure practices, and to assess changes and risks in those policies.

63. During the reporting period, the Committee engaged in discussions with the Board of Auditors, the Under-Secretary-General for Management and officials of the Office of Programme Planning, Budget and Accounts on a number of issues relating to financial reporting. The issues discussed included:

(a) The status of implementation of the International Public Sector Accounting Standards (IPSAS) in the United Nations, including recent progress, challenges faced, the revised timeline for the implementation of IPSAS and the synchronization of the IPSAS timeline and strategy with that of the enterprise resource planning project (Umoja);

(b) The implementation of Umoja, the interdependence of Umoja with full IPSAS implementation and the risks associated with the delays of Umoja on the timely implementation of IPSAS.

64. During one of the briefings to the Committee, the former Controller had indicated that the delay in implementing Umoja was one of the greatest risks to the

successful/timely launch of IPSAS. This dependence was reiterated in the report of the Secretary-General on IPSAS (A/66/379, para. 70). As it became apparent that Umoja would not be on schedule, the Committee was subsequently informed that the enterprise resource planning system would be implemented in phases, starting with Umoja Foundation, that would support IPSAS. According to the recent briefing to the Committee, the United Nations is planning to implement IPSAS using legacy systems rather than Umoja Foundation in case Umoja is not available in time to support IPSAS. In its report, the Advisory Committee on Administrative and Budgetary Questions expressed concern that resources that could otherwise go towards the implementation of Umoja could be diverted towards enhancing the legacy systems and the Integrated Management Information System (IMIS), thereby compounding the problem (see A/66/536, para. 16).

65. The Committee supports the decision to undertake IPSAS implementation using the existing systems and workarounds as proposed in the recent fourth progress report on IPSAS (A/66/379). The Committee was concerned, however, about the cost implications of configuring/running the legacy systems to support IPSAS. Upon further discussion the Committee was informed that only minimal changes would be made to current functional systems, that the changes were being made within existing resources and that it was not anticipated that the transitional arrangements would have any impact on the overall indicative budget for IPSAS. **In this respect, the Committee was informed that what was most at stake was the reputational risk to the Organization if IPSAS were not implemented by 2014, as currently scheduled. The Committee acknowledges the symbiotic relationship between IPSAS and Umoja, and welcomes the proactive effort management has made to integrate these transitional arrangements with the eventual deployment of Umoja.**

E. Coordination among United Nations oversight bodies

66. During the reporting period, in addition to its regularly scheduled meetings with OIOS, the Committee met with other oversight bodies, including the Joint Inspection Unit and the Audit Operations Committee of the United Nations Board of Auditors. In separate meetings with the Board of Auditors, the Joint Inspection Unit and OIOS, the Committee took note of the positive relationship fostered through the tripartite coordination meetings of the oversight bodies and the sharing of workplans to avoid duplication.

67. During its eighteenth session, the Committee and the Board of Auditors continued to exchange experiences and discussed ways to enhance cooperation and effectiveness without prejudice to their respective mandates. The Committee and the Board also engaged in extensive discussions on the Board's findings on operational implications of the trends in the financial statements and the steps the Board, in particular, and the Panel of External Auditors, in general, were taking to analyse such trends.

68. The dialogue between the Board and the Committee allowed for the sharing of perspectives on matters of mutual concern and provided a useful opportunity for cooperation among United Nations oversight bodies.

F. Cooperation and access

69. The Independent Audit Advisory Committee is pleased to report that it has received the full cooperation of the Joint Inspection Unit, the Board of Auditors, the Office of Internal Oversight Services and senior management in the Secretariat, including the Department of Management, in discharging its responsibilities. The Committee was also given appropriate access to the staff, documents and information it needed to undertake its work. The Committee looks forward to continued cooperation with the entities with which it interacts in order to discharge its responsibilities, as set out in its terms of reference, in a timely manner.

IV. Conclusion

70. Within the context of its terms of reference, the Independent Audit Advisory Committee presents the above observations, comments and recommendations, as contained in paragraphs 18, 20, 21, 23, 25, 29, 34 to 40, 44, 46, 49, 52, 54, 56, 58, 60, 61 and 65 for the consideration of the General Assembly.